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SUBJECT: NORTH KOREAN ECONOMIST ON "ABNORMAL" DPRK ECONOMY

¶1. (SBU) SUMMARY: Cho Myungchul, Head of the International Cooperation Team for Korean Unification at the Korea Institute for International Economic Policy in Seoul, who defected from the DPRK in 1994 and is a prominent commentator on the DPRK, said that the DPRK economic situation is very dangerous because the DPRK government realizes that further openness and reform are needed to increase output, but is deadset against any such moves because they could threaten regime security. In this "abnormal" economy, increasing productivity in industry and manufacturing does not translate into an improved standard of living for average North Koreans, and there are no reliable statistics with which to accurately gauge economic conditions. END SUMMARY.

POVERTY HOLE

¶2. (SBU) At an August 29 meeting in his office in the Korea Institute of International Economic Policy (KIEP), Cho Myungchul said that North Korea was in a "poverty hole," because it did not have the resources or know-how to improve economic output. He said that the DPRK government realized further reforms (beyond those enacted in 2002) were needed, but balked because it perceived further openness and reform as a threat to regime security, which remained paramount. The resulting difficulty facing North Koreans trying to get by was "difficult to describe in words." Asked what he thought about trends in economic conditions facing ordinary North Koreans, Cho said that economic reforms that the DPRK put in place in mid-2002 -- such as allowing for market-determined prices, some private income-producing activities, and plant-level production decisions -- had led to increased output and improved productivity for some sectors. But because of the DPRK's "abnormal" economy, it was not certain that these gains translated into gains for workers or ordinary North Koreans.

¶3. (SBU) Ordinary North Koreans, facing severe privation, had four alternatives, Cho said: to try to change the government; to persuade the government to open the economy further; to conduct informal trade or hold extra jobs to get by; or, to flee North Korea. Most opted for what they saw as the easiest alternative. Many who lived near the border had fled to China. Those farther from the border relied on informal trade or extra work. It was now considered legitimate to have an extra part-time job, something that was taboo earlier. Changing the government, or changing government policy, was seen as next to

impossible. Such an effort would amount to "giving up your life." Cho said the conditions in the DPRK were similar to those that Chinese peasants faced until China enacted economic reforms. He also cited leaders' decisions as being crucial to reform and system collapse in Eastern Europe, but saw no such prospects in North Korea.

NO RELIABLE NUMBERS

¶4. (SBU) Cho said that his best estimate was that the DPRK experienced negative economic growth from 1991-1998 but that since 1998 there had been some real expansion of the economy. Given the lack of any reliable statistics (even about that growth pattern), Cho said that it was impossible to tell whether output was increasing because of reforms or because of increased foreign aid, especially from China. Shaking his head, Cho said that his biggest challenge was to gather reliable statistics on North Korea's economy. His best sources were Chinese and Russian trade data, as well as conversations with Chinese businesspeople who have dealings in the DPRK. He suggested that the USG cooperate with the ROKG to gather reliable economic data about the DPRK, suggesting that U.S. satellite imagery could cast light on agricultural conditions, for example.

¶5. (SBU) Cho said he had no direct information about July floods in the DPRK, suggesting that the most reliable documentation of the damage would come from the DPRK's insurance claim to a UK insurance company (not specified).

ROLE OF ACADEMICS

¶6. (SBU) Noting that our hour-long session with him was interrupted ten times as he briefly fielded telephone calls, we asked how his advisory role in Seoul compared with his previous experience as an economics professor in Pyongyang's Kim Il Sung University. Cho answered that in South Korea he gets about four calls a day from government ministries asking for input. In Pyongyang he got about two such calls a year, and the DPRK government only consulted academics to solicit justification for its policies.

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